



## Early Journal Content on JSTOR, Free to Anyone in the World

This article is one of nearly 500,000 scholarly works digitized and made freely available to everyone in the world by JSTOR.

Known as the Early Journal Content, this set of works include research articles, news, letters, and other writings published in more than 200 of the oldest leading academic journals. The works date from the mid-seventeenth to the early twentieth centuries.

We encourage people to read and share the Early Journal Content openly and to tell others that this resource exists. People may post this content online or redistribute in any way for non-commercial purposes.

Read more about Early Journal Content at <http://about.jstor.org/participate-jstor/individuals/early-journal-content>.

JSTOR is a digital library of academic journals, books, and primary source objects. JSTOR helps people discover, use, and build upon a wide range of content through a powerful research and teaching platform, and preserves this content for future generations. JSTOR is part of ITHAKA, a not-for-profit organization that also includes Ithaka S+R and Portico. For more information about JSTOR, please contact [support@jstor.org](mailto:support@jstor.org).

## THE TRUST PROBLEM : A PROPOSED SOLUTION.

WHETHER this country harbors real trusts in any considerable number, is a question upon which there is a difference of opinion. All agree however, that the various anti-trust laws, heretofore enacted in forty-five states, have been ineffectual in suppressing either the real, or the so-called trusts, which have called forth these laws.

The purpose of this paper is to propose a Federal Income Tax as a practicable means of solving the trust problem.

The tax to be employed, however, is not to be such a one as Congress in the sixties, levied upon incomes in general, and again, in recent years sought to impose, but one that is to be graduated under a new principle of graduation, hereinafter set out.

Before discussing the proposed tax the writer submits a few conclusions which he has reached upon the trust question. They are these :

The trust problem is but a phase of the larger social problem.

The anti-trust movement, though ostensibly directed against trusts, is in fact directed against certain evils, of which trusts are supposed to be, but are only in part, the creative agents, and the embodiment. Its real aim is to correct evils which were as pronounced before the era of trusts as now, and which would continue though trusts were crushed. Its object is to secure a more equitable division of the reward of labor, and to destroy the power, wherever lodged and however employed, of exacting from consumers, by means of higher prices, exorbitant reward for labor, and of diverting this reward to purposes other than the rewarding of labor.

So-called trusts are, largely, the result of the unrestricted, destructive competition, which brings financial disaster, at sometime, upon nine tenths of all who embark in business. This competition has made the history of our industries but a story of tragedies, whose every page tells of life and death struggles between competitors, in which the strong victors of one day were crushed the next, by others still stronger. This competition compelled those to combine who would escape its merciless wheels.

These so-called trusts are mostly but corporations which have secured a practical monopoly of the production of certain commodities. They have no powers in law, which other corporations do not enjoy in an equal measure. They possess virtues as well as vices.

They are not evils *per se*, but evils only under certain conditions. They effect large savings in cost of production, which should be welcomed, if consumers and wage-earners are allowed to share in their benefits. To crush trusts indiscriminately would be like prohibiting the use of dynamite for any purpose because it is used for criminal ends in the destructive bomb as well as for legitimate purposes in mines. It would be like excluding thousands from a beautiful park because a few vandals destroy plants therein. The abuse, and not the enjoyment of a privilege should be punished.

Every previous step in the industrial evolution, by effecting savings in cost of production and lowering prices of commodities has benefited consumers. Every such step also has benefited wage-earners as a class. Labor temporarily displaced found re-employment at better wages when an increased demand for commodities followed the lowering of prices. The formation of trusts and larger corporations is but a further step in this evolution, which, under proper guidance, will result in similar benefits.

The solution of the trust problem must therefore not be sought in the suppression of the concerns which effect savings in production, nor in permitting them to appropriate the whole of such savings in the form of larger profits. It lies in the employment of measures by which a liberal share of such savings can be made to inure to the benefit of consumers through lower prices, or to wage-earners, through higher wages, or to the government through taxes. We must aim at acceptance of such benefits as trusts afford, must abstain from interference with trusts where they freely part with the benefits arising from their savings in production, and must interfere with them only when they retain an exorbitant share of such benefits.

By their income it may be judged what disposition trusts made of these benefits. The ratio of the net income of each trust to paid-up capital, to aggregate wages paid, and to volume of business is proof with what degree of fairness it parted with such benefits, or with what degree of unfairness it retained them. These incomes must be scrutinized, and with these incomes those must primarily concern themselves who would find a practicable solution of the trust problem.

The trust which is allowed to exploit its powers and privileges to the fullest extent with impunity, and which is left in the undisturbed enjoyment of its income, however ill gotten and however much the result of extortion, will see no need of mending its evil ways. To

deny to it the right to the undisturbed enjoyment of its ill-gotten gain would be to discourage extortion on its part.

A federal tax on the incomes of trusts and corporations, so graduated as to be less or more burdensome on each trust, as each one was more or less liberal in its dealings with wage-earners and consumers, will insure to these two classes, through direct as well as indirect means, an equitable share of the benefits of the saving in cost of production, and with that done the trust problem is practically solved.

Tariff reduction on commodities controlled by trusts would be a welcome ally, and publicity in the organization and management of trusts and more extended jurisdiction of the federal government over large corporations are necessary allies in solving the trust problem.

It is to the solution of the trust problem as thus understood that the proposed tax is directed, and in its further discussion the soundness of the foregoing conclusions is assumed.

This tax is not intended to be an ordinary income tax, but one that is to be levied independent of, and in addition to any general income tax that may be contemplated. New Zealand supplements her ordinary land tax by an additional graduated land tax. She imposes the latter upon certain large estates only, and even makes it more burdensome in cases of non-resident ownership. Thus, too, the ordinary tax, which may eventually be levied on gross incomes, by whomsoever and from whatsoever source received, is to be supplemented by an additional tax on the net incomes of trusts and corporations, which tax is to be graduated according to the ratio of the income to be taxed to the aggregate wages paid for labor participating in its production.

A country which employs import duties to provide revenue and to afford protection to industries, and whose separate states wisely employ high license to provide revenue and to encourage temperance, will pursue no revolutionary lines if it employs income taxes to provide revenue and to secure a more equitable division of the reward of labor.

For want of better terms let us call the first of these income taxes a revenue income tax, and the second a remedial income tax. The first to have for its primary purpose the raising of revenue; the second, the double purpose of raising revenue and modifying certain evils resulting from defects in our system of production and distribution. It is with the remedial income tax only that we are now dealing.

For the purposes of this tax, let us call the profits of trusts and corporations, after deductions for wages, compensation for services of proprietors, expenses, and interest on borrowed capital, their gross income. From their gross income let us deduct an amount equal to a fair rate of interest on their paid up capital, and also a sum equal to a fair rate per cent. of the wages paid by them for labor participating in its production, and let us call the balance their net income, which alone is to be subject to this tax.

Six per cent. is perhaps a fair rate to be allowed as interest on capital, and five per cent. of wages paid, a fair rate to be allowed as margin on labor employed. On net incomes, as thus ascertained, if not in excess of a sum equal to 1 per cent. of total wages paid for labor participating in their production, let there be placed a tax of 1 per cent. On net incomes in excess of 1, and not in excess of 2 per cent. of such wages, let the tax be 2 per cent. And on net incomes in excess of 2, and not in excess of 3 per cent., make the tax 3 per cent., and let the further increase in rate be in this ratio.

Suppose a corporation with a capital of \$100,000, an annual wage account of \$50,000, and annual gross profits aggregating \$13,500. Deducting from the latter the sum of \$6000 as interest on capital and \$2500 as margin on wages, there would remain net income to the amount of \$5000 to be taxed. On the first \$500 of this the tax would be \$5, on the second \$500 the tax would be \$10, on the third \$500 the tax would be \$15, and on the whole sum the tax would be \$275. Suppose now another corporation with an equal amount of capital and gross income, but with an annual wage account of only \$30,000. Its exemptions would be \$7500, and its net income to be taxed, \$6000. Its tax on the first \$300 of this amount at the foregoing rate would be \$3, on the second \$300 it would be \$6, and on the whole amount \$630, thus showing a large increase in tax over the corporation paying the larger wages as compared with net profits.

This plan of reaching trusts, it is true, could be simplified by making the paid up capital of each trust, which remains fixed, instead of its wage account, which varies each year, the basis, and by graduating the tax to be levied according to the ratio of the income to paid up capital, instead of according to the ratio of such income to wages paid. With the basis of graduation thus changed the foregoing illustrations, under the same rate of tax, would furnish quite different results. In the first case the first \$1000 of net income would be taxed

\$10, the second \$1000 would be taxed \$20, and the tax on the whole \$5000 would be \$150. In the second case the tax on the whole net income of \$6000 would reach \$210.

This method of graduation would perhaps be practicable if the raising of revenue were to be the only aim of the remedial income tax. But as it would encourage increase in capital only and not increase in wage account, it would fail in accomplishing one of the ends most desired, and for that reason it need not be considered at length by those who are searching for the most practicable solution of the trust problem. The rate employed in the foregoing cases is not proposed with a view of fixing the standard, but is used only by way of illustration. If the wisdom of employing the newly found principle of graduation, in properly placing the burdens of taxation, is admitted, the most painstaking efforts of our ablest economists will be required to find a standard that shall be neither ineffectual in furthering the end desired nor confiscatory. They will have to work out the details of a plan which will enable practical application of this principle in taxing incomes, however disproportionate may be their ratio to wages paid.

This principle seems to point out a way of dealing with the social problem which lies between the extremes of individualism and socialism. It must appeal to the social reformer who believes in reforms on conservative lines, and who considers the trust problem but a phase of a wider social problem. Even the socialist, whose purity of motive is not in doubt, must perceive its merit. The latter ascribes most social ills to the private ownership of the material instruments of production and distribution, and demands their socialization in order that the reward of labor may be more equitably divided. His demands, however, include the overthrow of the existing social order. This principle aims at curing these ills through measures consistent with and operative under this order. By its aid the state, without socializing industries, but under individual ownership and control of such industries, is to encourage an equitable division of the reward of labor among those whose efforts have participated in the production of such reward.

If we fail in solving the social problem by one of the many, or by a union of some or all of the methods that have been suggested from time to time, or if we fail in crushing the power to do evil possessed by the gigantic combinations of capital which are multiplying with such amazing rapidity, and which threaten to hold consumers and

wage-earners alike so fully at their mercy, shall we not in time be confronted with the alternative of submitting helplessly to their dominion or assuming ownership of them. Even now socialists welcome these industrial giants as a step in the direction of eventual socialization of industries and the overthrow of the existing social order. Were we to discover a practicable way of imposing a federal income tax graduated in accordance with the principle hereinbefore suggested, there would be reason to hope that benefits exceeding our most sanguine expectation would follow, and the trust problem, if not the wider social problem, would give greater promise of eventual solution.

The following are some of the results to be looked for: Offending trusts and corporations, and, it may be hoped, eventually, individuals too, would be pressed to abstain from exacting excessive tribute from consumers and wage earners, or, failing so to abstain, would be forced to make amends in proportion to the extent to which labor, privileges and powers were exploited by them. Rises in prices unaccompanied by proportionate rises in wages, and reductions of wages unaccompanied by proportionate reductions in prices, would be discouraged. Trusts and corporations would carry only such chains as they chose to forge for themselves. To the most powerful of these, if content with moderate profits, the touch of this tax would be as light as to the humblest individual. Their burdens would increase with the measure of their greed. Dangers from monopolies would be reduced to a minimum. Exploitation of labor would become less common. Wages would rise. Those from whose efforts profits result would be certain of a more equitable share therein. Wage-earners, guaranteed an equitable share of the reward of their efforts through federal intervention, would become more content. Strikes and labor troubles would be avoided, and industries, freed from these, would attract unlimited capital looking for moderate returns. Individuals would take warning that capital when co-operating with labor in production must restrict itself to reasonable profits. And the government, in receipt of abundant revenue from those best able to carry the burdens of taxation, could lighten the burdens of those ill able to carry them.

I have discussed this tax as a means of dealing with trusts and corporations only. If effective as such its scope admits of enlargement. A fair and frank discussion of it will at least determine what if any merits it possesses, and to what extent it admits of being employed in solving the trust problem.

C. A. FICKE.